

VZCZCXRO7572  
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN  
DE RUEHDR #1531/01 3301156  
ZNR UUUUU ZZH  
R 261156Z NOV 07 ZDK CTG LGB # 03031  
FM AMEMBASSY DAR ES SALAAM  
TO RUEHC/SECSTATE WASHDC 7080  
INFO RUEHJB/AMEMBASSY BUJUMBURA 2605  
RUEHKM/AMEMBASSY KAMPALA 3091  
RUEHLGB/AMEMBASSY KIGALI 1038  
RUEHNR/AMEMBASSY NAIROBI 0845  
RUEHBJ/AMEMBASSY BEIJING 0342  
RUEHDS/AMEMBASSY ADDIS ABABA 3260  
RUEHBS/USEU BRUSSELS  
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE

UNCLAS SECTION 01 OF 03 DAR ES SALAAM 001531

SIPDIS

SENSITIVE, SIPDIS

DEPT AF/E FOR MBEYZEROV, AF/EPS FOR THASTINGS  
PASS TO USTR FOR FLISER, WJACKSON  
PASS ALSO TO COMMERCE/ITA FOR BERKUL  
NAIROBI FCS FOR JSULLIVAN  
ADDIS FOR AU MISSION

E.O. 12958: N/A

TAGS: [ETRD](#) [EFIN](#) [EAID](#) [ECON](#) [PREL](#) [TZ](#)

SUBJECT: EAC SAYS IT IS READY TO MOVE FORWARD ON THE US-EAC TIFA

DAR ES SAL 00001531 001.3 OF 003

#### Summary

¶1. (U) The Secretary General of the East African Community (EAC), Ambassador Juma Mwapachu, told Assistant United States Trade Representative (AUSTR) for Africa Florie Liser November 13 that the proposed U.S.-EAC Trade and Investment Framework Agreement (TIFA) would be at the top of the agenda of the EAC's next summit meeting. SG Mwapachu gave Ms. Liser a few suggested EAC changes to the draft text, which she promised to have USG colleagues review upon her return to Washington. The EAC staff offered an update of the ongoing discussions on the Economic Partnership Agreement (EPA) with the European Union. Liser urged the EAC to review its Common External Tariffs for used clothing and almonds and encouraged the EAC member countries to work cooperatively, especially in the textile and apparel sectors, to improve value-added production chains and exports under AGOA. End summary.

¶2. (U) AUSTR Liser was in Arusha to attend the African World Business Congress and Tanzania Investment Forum. In her remarks at the November 12 opening of the conference, she mentioned that the USG was still waiting to hear from the EAC on the USG offer, first made in June 2006, to undertake a TIFA between the United States and the EAC. Tanzanian President Kikwete, who was also at the opening, intervened to publicly ask Liser, from the dais, "what the hold-up was" with the TIFA. When she replied that she honestly did not know, he indicated that he would be following up with Secretary General Mwapachu, who it turns out was also at the opening. President Kikwete was seen meeting with Mwapachu immediately after the conference.

¶3. (U) Thus it was no surprise that Mwapachu was eager to discuss the TIFA in his previously scheduled November 13 meeting with Liser at the EAC Headquarters in Arusha. The Secretary General explained to Liser that the EAC trade ministers had requested that the TIFA be drafted as an agreement between the United States and the East African Community, rather than bilaterally with member states as in the original draft. Liser noted that the United States has TIFAs with other regional economic organizations in Africa, such as COMESA, and therefore has no objection to doing the TIFA with the EAC. She reminded Mwapachu that the possibility of an EAC TIFA was initially raised by USTR at the June 2006 AGOA Forum in Washington

DC and the original draft was sent to the EAC and its members in August 2006. In late June 2007, USTR's William Jackson met with EAC officials in Arusha, where he learned of the EAC Members' preference that the agreement be with the EAC rather than with its members. In August 2007 USTR transmitted to the EAC an updated version of the draft TIFA reflecting this change.

¶4. (SBU) SG Mwapachu assured Liser that "at the political level the TIFA is endorsed." He stated that since USTR submitted the updated language in August, the draft TIFA has been circulated to all EAC member countries and would be on the agenda at the next ministerial level Sectoral Council of Trade, Investment and Finance. He noted that, the previous day, President Kikwete had expressed to him that the TIFA should have the highest priority on the EAC agenda. "Yesterday President Kikwete inquired whether the Sectoral Council was ready to consider the TIFA and told me that we must open up to the United States," Mwapachu said. Kikwete asked that once a date was set for the EAC summit, the TIFA should be discussed by the heads of state at the pre-consultative meeting. Mwapachu added that Uganda's President Museveni, the current chair of the EAC Summit, had also indicated his intent that the U.S.-EAC TIFA be a top agenda item for the EAC.

#### EAC Common External Tariff: Almonds, Used Clothing

-----

¶5. (SBU) AUSTR Liser raised with Mwapachu U.S. concerns about increased tariffs on some U.S. exports to EAC countries since the establishment of the EAC Customs Union and its related Common External Tariff (CET) in January 2005. She noted that the U.S. has asked the EAC to reconsider the classification of almonds under the CET and to place almonds in the "semi-finished" product category. She also asked that the EAC look closely at the extraordinary tariffs imposed on used clothing under the Customs Union. The EAC staff commented that in mid-2005, the tariff was lowered from 50 percent to 45 percent, or an average of about 30 cents per kilo, and that a number of other taxes (e.g. excise) had also been removed as a result of the CET. The tariff reduction was primarily in response

DAR ES SAL 00001531 002.2 OF 003

to strong lobbying by East African used clothing importers and middlemen who claimed the higher tariff hurt not only their businesses but severely affected the buying power of lower-income consumers. (Comment: Despite the modest mid-2005 reduction, the EAC tariff on used clothing is still substantially higher than before the EAC Customs Union and continues to serve as a hindrance to U.S. exports of this product to the region. End comment.)

¶6. (SBU) SG Mwapachu insisted the higher CET on used clothing was still needed for the moment: "The textile industry is only now beginning to revive; we need to have a breathing space." Ms. Liser countered that studies show that suppressing the used clothing market usually does not yield the intended result. Often the gap between locally produced textiles and apparel is filled by cheap, poorly made imports, predominantly from China.

¶7. (SBU) The EAC secretariat staff said a comprehensive review of the used clothing tariff is now underway. The review includes a thorough analysis of all textile and apparel sectors and is being conducted by the members' respective Ministries of Finance. A key goal is to assess the utilization of used clothing at current tariff levels and the capacity of the region. SG Mwapachu pointed out the need for the review to also analyze results through a country-by-country breakdown.

#### EPA Discussions with European Union

-----

¶8. (U) In response to AUSTR Liser's request for an update on the EAC's negotiations with the European Union on an Economic Partnership Agreement, the EAC staff commented that an October 11 meeting in Nairobi had been key. At that time, an EAC harmonized offer on access was presented to and accepted by the EU; all EAC trade ministers had signed the document. EAC Deputy SG Julius Onen was currently in Brussels to lead the final negotiations supported by the trade representatives of Tanzania, Uganda and Kenya.

¶9. (SBU) SG Mwapachu said an interim EPA was the goal because the EU

had realized that none of the regional entities were yet ready to conclude the broader WTO-compliant agreement that the EU is seeking. Only certain market access issues would be agreed to; other issues will continue to be negotiated after January 1. The EAC goal is not to liberalize too quickly, to seek exceptions for sensitive goods, and to eliminate certain subsidies.

#### African Support Needed to Secure WTO Waiver

-----

¶10. (U) Liser appreciated African nations' willingness to liberalize trade and emphasized that the U.S. wants to give as much preference as possible to sub-Saharan African nations for as long as possible. She added that USTR has been watching the EPA negotiations carefully since, ultimately, the United States would also look toward reciprocal agreements with African nation partners. At present, AGOA has been approved by Congress until 2015 with no reciprocal obligations. However, the United States must obtain a WTO waiver to continue the AGOA preferences. The U.S. request for a waiver is still pending in the WTO, with Paraguay being one of the last hold-outs standing in the way of the waiver. Ms. Liser urged that the EAC countries press Paraguay to remove its objections to the waiver.

#### Textiles and Apparel

-----

¶11. (SBU) USTR Liser reiterated the need for EAC and all AGOA-eligible countries to take advantage of opportunities in the apparel sector. "There is a bright market for African-produced textiles in the United States." She also noted the need to work cooperatively to guard against counterfeits: "I saw many fake textiles in West Africa, particularly in Nigeria, that had been copied by hand, then counterfeited, often by Chinese companies."

¶12. (U) Liser stressed that textiles and apparel can enter the U.S. duty-free under AGOA and noted that a number of AGOA-eligible countries have increased their apparel exports within the last two years, including several East African countries. However, nearly 96% of the fabric used in AGOA apparel exports was from non-AGOA countries. "Africa has a huge under-utilized capacity to produce African-grown cotton and cotton-blend textiles." She strongly encouraged SG Mwapachu to guide the EAC members to produce more

DAR ES SAL 00001531 003.2 OF 003

textiles and apparel for export.

#### EAC Strategy and Cooperation is Key

-----

¶13. (SBU) AUSTR Liser also challenged Ambassador Mwapachu to focus on increasing cooperation among AGOA-eligible countries within the EAC: "One country can produce the cotton, another can spin the yarn, another can weave the fabric, and yet another can transform the fabric into apparel for export. Strategize to take advantage of AGOA and create an aggressive regional approach from the cotton farms all the way through the value-added chain," she suggested. SG Mwapachu agreed that such an approach should be a central industrial and investment policy for the EAC. While adding that many of the needed instruments are in place, the SG still queried: "How do we make the shift?" Liser stressed the USG is ready to work with the EAC through OPIC, USAID and other USG agencies to support a coordinated East African regional strategy to increase AGOA exports.

#### Timing

-----

¶14. (U) SG Mwapachu indicated that the regularly scheduled November 2007 EAC meetings, both Sectoral Council and the Summit, might be postponed due to the ongoing presidential and parliamentary elections in Kenya. "The Kenyans, from President Kibaki downward, are very involved in the campaign," he said. Consequently, the Summit might not be convened until early 2008 which could lead to a slight delay in approving the TIFA. "But rest assured it is an extremely high priority for the EAC," Mwapachu concluded.

GREEN